REPORT OF THE MANAGER OF THE FEDERAL CROP INSURANCE CORPORATION, 1942

UNITED STATES DEPARTMENT OF AGRICULTURE

AGRICULTURAL CONSERVATION AND
ADJUSTMENT ADMINISTRATION,
FEDERAL CROP INSURANCE CORPORATION,
Washington, D. C., September 15, 1942.

MR. M. CLIFFORD TOWNSEND,
Administrator, Agricultural Conservation and Adjustment Administration.

DEAR MR TOWNSEND: Submitted herewith is the annual report of the activities of the Federal Crop Insurance Corporation for the fiscal year ended June 30, 1942.

Sincerely yours,

LEROY K. SMITH, *Manager.*

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CROP INSURANCE IN WARTIME

Wheat and cotton crop failures, which occur somewhere in the United States every year, have forced thousands of farmers to abandon their farms, leaving manpower, machinery, and land idle. In peacetime this is tragic; it is much worse in wartime. To fight this war it is as important to keep the farm production plant in good working order as it is to keep industrial war production plants humming at full speed. The crop insurance program helps to keep farmers on the land and producing through distribution of premiums paid in by all insured growers to those who lose their wheat or cotton crop to unavoidable hazards.

Abundance of wheat and cotton does not lessen the need for guaranteed yields of these two crops. Many wheat and cotton producers are wisely adjusting their acreages downward, and this makes it more important than ever that they be assured a reasonable return from the acres they do plant. That guarantee should give producers courage and greater ability to turn to the production of the farm commodities we and our allies need. Other advantages to a nation at war, stemming from stabilized farm income, are higher morale and lighter relief loads, which in turn mean more taxpayers better able to help share the cost of the war.

The Federal Crop Insurance Corporation is beginning its fifth year of insurance experience on wheat and has started to pay early losses on the first insured cotton crop. Although it would take legislative authority to extend the program to other crops, the Corporation, with its trained personnel and experience, is now in a position to insure on a reasonably sound basis experimental and other crops to stimulate their production for war purposes. Guaranteed income from the production of experimental plants such as rubber- and drug-producing plants, of which this country has heretofore had an insufficient native supply, would certainly be one means of stimulating farmers to produce them. It is logical to believe that insurance on other crops of which we have an inadequate wartime supply, such as peanuts, soybeans, flax, hemp, and certain vegetables, would stimulate their production.

WAR HAZARDS

The war has created new hazards to production—hazards that were not contemplated when the Corporation's actuarial structure was built—but to carry out the spirit of "all-risk" protection as authorized by the Crop Insurance Act, coverage has been extended to include certain types of losses that might result from war conditions. Such hazards fall into two categories: (1) Those caused by direct enemy action or action by our own armed forces in defense of the country, and (2) those resulting from inability of producers to obtain labor, fertilizer, machinery, insect poisons, and other farming essentials, owing to war conditions.

Authority to include such war losses under a crop insurance contract is found in section 508 (a) of the Crop Insurance Act. Therein the Corporation is authorized and empowered to insure

> . . . producers of the agricultural commodity against loss in yields of the agricultural commodity due to unavoidable causes, including drought, flood, hail, wind, winterkill, lightning, tornado, insect infestation, plant disease, *and such other unavoidable causes as may be determined by the Board.*

In settling losses caused by the inability of the insured to obtain labor, materials, and other farming essentials due to war conditions, it is largely the responsibility of county committees to ascertain what portion of the loss was caused by war shortages and what portion by normal unavoidable causes. They are also required to determine that the insured made a reasonable effort to obtain the necessary labor and materials. An important factor in making this determination is the effort made by uninsured growers to obtain these necessities. Any savings in cost the insured grower may effect through inability to hire labor or buy machinery, repairs, or materials to produce and harvest the crop are deducted from the indemnity. This eliminates any possibility for the grower to profit from shortages caused by war conditions.

BENEFITS GEARED TO PARTICIPATION

The public good that can come from insured yields depends, of course, upon the number of growers that participate in the plan. Table 1 summarizes the participation by growers in the wheat insurance program and benefits accruing to them therefrom for the 3 years 1939–41. It will be noted that there has been a substantial year-to-year increase in the number of participants in the program. It is currently estimated that insurance was written on over half a million producer interests in the 1942 wheat crop and 173,000 producer interests in the 1942 cotton crop. Final data on the 1942 wheat and cotton sign-up will not be available, however, until reports on acreage seeded have all been submitted.

TABLE 1.—*Federal wheat crop insurance experience by years, 1939–41* [1]

Crop year	Contracts—				Crop area insured
	Written [2]	In force	Indemnified		
	Number	*Number*	*Number*	*Percent*	*Acres*
1939		165, 775	55, 932	34	7, 234, 913. 3
1940	379, 710	360, 496	112, 763	31	12, 755, 367. 8
1941	420, 939	371, 468	130, 731	35	11, 736, 427. 4

Crop year	Proportion of allotment insured	Insured production	Premiums	Indemnities	Loss ratio
	Percent	*Bushels*	*Bushels*	*Bushels*	*Percent*
1939	13	60, 836, 719	6, 670, 316	10, 163, 899	1. 52
1940	21	108, 282, 202	13, 796, 866	22, 899, 750	1. 66
1941	19	104, 327, 465	12, 645, 866	18, 832, 340	1. 49

[1] Experience in the 1942 program not included as data are preliminary and incomplete.
[2] Difference between contracts written and contracts in force represents cancelations, rejections, etc., and no wheat seeded.

Under the 1942 insurance program all units farmed by a producer within a county were listed on one application, but because of excess moisture at seeding time in part of the wheat-producing areas some of the units listed were not planted, or for other reasons they were not eligible for insurance. Therefore, 1942 sign-up figures are subject to downward revision. Table 2 shows participation by States for 1939–41 programs as of June 30, 1942.

TABLE 2.—*Federal Wheat Crop Insurance Experience by States and by Years* [1]

[As of June 30, 1942]

Branch office and State	Crop year	Contracts— In force	Contracts— Indemnified		Crop area insured	Proportion of allotment insured	Production— Insured	Production— Premiums	Production— Indemnities	Loss ratio	State yield compared to base period average yield [2]	Seeded acreage abandoned [3]
		Number	Number	Percent	Acres	Percent	Bushels	Bushels	Bushels	Percent	Percent	Percent
Chicago branch office:												
Illinois	1939	12, 189	970	8	267, 151. 0	15	2, 912, 114	185, 194	58, 294	0. 31	116	4. 4
	1940	14, 254	792	6	290, 614. 5	15	3, 231, 603	215, 341	36, 047	. 17	129	1. 1
	1941	32, 898	5, 549	17	629, 912. 2	33	7, 047, 485	417, 567	443, 141	1. 06	111	3. 9
Indiana	1939	11, 156	2, 574	23	163, 667. 5	11	2, 020, 045	141, 634	148, 728	1. 05	100	5. 7
	1940	26, 884	3, 085	11	332, 477. 2	21	4, 048, 436	280, 191	123, 915	. 44	112	1. 8
	1941	30, 543	1, 090	4	371, 772. 7	23	4, 589, 032	301, 622	35, 771	. 12	137	. 9
Iowa	1939	4, 645	1, 782	38	72, 598. 9	19	894, 064	57, 223	127, 312	2. 22	88	13. 1
	1940	6, 515	705	11	100, 299. 2	22	1, 228, 446	97, 553	47, 580	. 49	133	5. 5
	1941	6, 094	5, 144	84	95, 207. 8	21	1, 135, 033	88, 208	689, 226	7. 81	46	44. 7
Kentucky	1939	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	1940	945	171	18	16, 465. 0	4	168, 815	14, 692	9, 691	. 66	99	15. 0
	1941	605	29	5	10, 978. 3	3	112, 610	8, 939	999	. 11	126	15. 0
Michigan	1939	5, 057	934	18	49, 232. 6	7	739, 664	30, 633	39, 481	1. 29	101	3. 5
	1940	15, 173	1, 536	10	134, 228. 5	18	1, 901, 231	86, 846	57, 965	. 67	115	. 6
	1941	13, 213	2, 115	16	120, 242. 3	16	1, 741, 495	83, 228	83, 523	1. 00	107	1. 3
Ohio	1939	10, 252	1, 908	19	123, 478. 2	7	1, 737, 408	131, 288	101, 184	. 77	93	6. 5
	1940	27, 668	2, 418	9	314, 140. 0	17	4, 230, 813	304, 725	77, 453	. 25	109	1. 0
	1941	31, 258	3, 221	10	349, 597. 2	19	4, 806, 489	289, 770	110, 628	. 38	125	3. 0
Tennessee	1939	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	1940	238	34	14	4, 773. 4	1	43, 858	2, 747	1, 383	. 50	115	4. 9
	1941	188	18	10	3, 069. 0	1	26, 223	1, 618	473	. 29	126	6. 7
Kansas City branch office:												
Arkansas	1939	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	1940	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	1941	38	17	45	735. 2	1	7, 582	352	1, 445	4. 11	101	14. 3
Colorado	1939	1, 429	761	53	70, 532. 9	5	580, 273	78, 215	187, 356	2. 40	86	29. 8
	1940	3, 491	1, 958	56	155, 890. 4	11	1, 221, 228	247, 776	465, 490	1. 88	95	26. 6
	1941	4, 976	759	15	209, 974. 9	14	1, 561, 018	353, 396	103, 427	. 29	174	11. 5
Kansas	1939	14, 887	5, 742	39	882, 738. 8	8	7, 328, 341	777, 080	1, 746, 943	2. 25	81	30. 1
	1940	58, 398	25, 003	43	3, 070, 590. 2	24	23, 893, 650	3, 694, 182	8, 298, 987	2. 25	98	29. 3
	1911	53, 991	20, 867	39	2, 679, 151. 0	21	19, 814, 409	3, 073, 994	2, 795, 470	. 91	127	9. 9
Missouri	1939	15, 735	2, 837	18	343, 075. 1	20	3, 264, 200	197, 328	171, 203	. 87	113	6. 0
	1940	20, 116	2, 975	15	365, 465. 2	19	3, 500, 111	244, 478	140, 693	. 58	130	4. 9
	1941	20, 883	13, 549	65	384, 597. 4	20	3, 767, 216	267, 819	1, 639, 770	6. 12	70	28. 0
Nebraska	1939	13, 197	8, 710	66	427, 020. 7	14	3, 922, 956	495, 556	1, 277, 596	2. 58	72	19. 6
	1940	53, 924	31, 102	58	1, 391, 226. 4	39	13, 162, 288	1, 972, 888	5, 130, 595	2. 60	83	19. 9
	1941	57, 272	44, 360	77	1, 504, 081. 8	42	13, 519, 901	2, 368, 893	7, 080, 122	2. 99	82	33. 0

New Mexico	1939	111	72	65	8,356.2	3	71,532	12,153	30,605	2.52	134	20.1
	1940	57	44	77	7,249.1	2	37,104	11,731	21,487	1.83	60	42.9
	1941	232	94	41	18,521.8	5	112,973	31,928	55,632	1.74	99	51.7
Oklahoma	1939	8,635	2,997	35	463,894.5	12	4,016,681	270,416	477,481	1.77	116	11.0
	1940	22,520	7,642	34	1,066,274.4	24	8,586,466	879,276	1,277,841	1.45	116	13.7
	1941	22,855	10,152	44	943,458.1	21	7,530,961	751,383	1,235,755	1.64	90	9.7
Texas	1939	3,677	2,362	64	346,939.0	9	2,528,066	396,019	1,017,657	2.57	85	29.4
	1940	10,858	5,383	50	811,202.4	19	5,189,197	1,069,272	1,649,525	1.54	80	31.8
	1941	9,378	5,577	59	668,389.9	16	4,114,348	958,750	1,787,840	1.86	79	33.3
Minneapolis branch office:												
Minnesota	1939	10,211	2,616	26	250,032.1	18	2,198,867	170,441	155,041	.91	101	.9
	1940	19,604	2,017	10	381,741.4	23	3,302,576	317,043	128,054	.40	145	.4
	1941	13,584	5,688	42	282,762.2	17	2,479,423	226,285	404,639	1.79	98	2.7
Montana	1939	5,200	1,749	34	536,042.4	16	4,425,554	655,925	681,177	1.04	129	10.1
	1940	3,894	1,216	31	349,943.1	9	2,415,438	512,453	367,278	.72	120	5.1
	1941	3,012	286	9	263,877.7	7	1,979,452	416,087	59,102	.14	172	3.1
North Dakota	1939	28,091	10,240	36	2,080,758.0	25	12,308,940	1,949,989	1,652,748	.85	110	6.2
	1940	30,448	11,109	36	1,971,724.2	22	11,289,677	1,833,724	2,039,857	1.11	126	5.0
	1941	18,937	965	5	1,248,764.7	14	6,967,291	1,046,759	192,787	.18	198	2.1
South Dakota	1939	10,644	7,638	72	510,518.5	17	2,796,641	728,983	1,592,739	2.19	78	25.4
	1940	19,446	10,187	52	717,134.2	22	3,745,360	1,046,390	1,618,221	1.55	104	12.3
	1941	12,591	3,847	31	502,768.5	15	2,586,369	847,604	537,094	.63	139	6.6
Wisconsin	1939	183	119	65	1,198.9	1	15,578	1,215	6,500	5.35	86	3.2
	1940	537	96	18	3,114.9	3	37,424	2,941	3,109	1.06	118	2.4
	1941	640	339	53	3,468.3	4	41,085	3,818	11,615	3.04	101	1.2
Wyoming	1939	321	235	73	23,406.7	8	207,101	29,071	84,035	2.89	80	26.6
	1940	1,188	856	72	79,439.2	24	561,466	120,852	271,458	2.25	107	19.0
	1941	1,296	108	8	73,448.9	22	541,585	127,052	17,264	.14	190	7.7
Spokane branch office:												
Arizona	1939	---	---	---	---	---	---	---	---	---	---	---
	1940	---	---	---	---	---	---	---	---	---	---	---
	1941	140	99	71	4,355.8	12	70,637	2,450	29,559	12.06	55	15.6
California	1939	1,002	389	39	111,160.2	18	1,558,732	73,428	252,087	3.43	104	8.0
	1940	1,988	1,082	54	164,907.1	24	2,263,482	154,397	624,875	4.05	83	9.5
	1941	2,210	1,299	59	174,736.9	25	2,197,865	163,758	732,752	4.47	83	12.3
Idaho	1939	1,708	235	14	128,881.8	14	2,041,709	76,630	76,304	1.00	103	7.1
	1940	6,334	817	13	178,144.5	18	2,897,651	132,873	99,899	.75	117	3.6
	1941	9,430	1,327	14	279,418.6	28	4,502,482	204,776	380,220	1.86	124	6.2
Nevada	1939	38	19	50	725.3	6	15,327	549	3,526	6.42	104	0
	1940	104	54	52	1,854.2	12	36,592	1,929	5,469	2.84	110	0
	1941	102	20	20	1,572.8	11	32,616	1,913	1,607	.84	110	0
Oregon	1939	662	188	28	93,238.5	12	1,370,679	62,284	101,107	1.62	102	5.4
	1940	1,973	462	23	293,762.1	35	3,646,449	228,369	146,798	.64	100	1.9
	1941	4,657	1,302	28	276,800.5	33	4,022,613	216,239	155,775	.72	142	3.1
Utah	1939	452	160	35	32,712.4	16	513,804	22,350	63,319	2.83	78	14.1
	1940	643	137	21	31,649.8	13	422,797	25,919	15,201	.59	108	5.0
	1941	2,984	366	12	66,622.5	28	892,364	60,946	24,477	.40	131	3.6
Washington	1939	1,332	239	18	167,805.9	10	2,261,124	86,555	86,789	1.00	107	2.2
	1940	3,453	778	23	378,712.4	20	5,313,926	225,977	186,261	.82	99	1.2
	1941	3,878	460	12	372,200.4	20	5,465,648	230,661	117,259	.51	138	2.3

See footnotes at end of table.

TABLE 2.—*Federal Wheat Crop Insurance Experience by States and by Years*[1]—Continued

[As of June 30, 1942]

Branch office and State	Crop year	Contracts— In force	Contracts— Indemnified		Crop area insured	Proportion of allotment insured	Production— Insured	Production— Premiums	Production— Indemnities	Loss ratio	State yield compared to base period average yield [2]	Seeded acreage abandoned [3]
Richmond, Va., branch office: [4]		*Number*	*Number*	*Percent*	*Acres*	*Percent*	*Bushels*	*Bushels*	*Bushels*	*Percent*	*Percent*	*Percent*
Delaware	1939	79	14	18	1, 765. 9	3	22, 208	859	668	0. 78	98	4. 0
	1940	451	83	18	8. 889. 5	12	102, 221	4, 209	6, 269	1. 49	104	2. 9
	1941	584	69	12	11, 351. 7	15	128, 524	5, 262	4, 330	. 82	111	4. 4
Maryland	1939	985	151	15	22, 997. 1	7	290, 905	10, 905	7, 103	. 65	98	4. 8
	1940	1, 256	160	13	32, 752. 5	9	410, 802	15, 061	9, 977	. 66	96	4. 0
	1941	1, 690	152	9	39, 252. 1	10	499, 900	18, 262	9, 755	. 53	104	6. 0
New Jersey	1939	29	3	10	380. 3	1	5, 778	190	170	. 89	79	25. 7
	1940	109	4	4	1, 206. 3	2	17, 983	594	264	. 44	83	23. 6
	1941	155	23	15	1, 902. 7	3	30, 749	959	1, 299	1. 35	80	23. 6
New York	1939	652	58	9	8. 756. 2	4	149. 854	5, 038	5, 226	1. 04	109	1. 8
	1940	878	42	5	9, 192. 0	4	132, 649	5, 858	2, 153	. 37	119	3. 1
	1941	965	157	16	10, 804. 9	5	171, 849	7, 084	9, 084	1. 28	103	3. 0
North Carolina	1939											
	1940	197	23	12	1, 952. 3	. 5	19, 413	930	362	. 39	125	7. 1
	1941	447	39	9	5, 472. 6	1	59, 369	2, 543	1, 320	. 52	127	6. 3
Pennsylvania	1939	2, 299	152	7	30, 448. 5	4	448, 933	15, 829	7, 709	. 49	107	2. 9
	1940	5, 788	667	12	68, 372. 3	8	979, 386	36, 141	30, 725	. 85	102	3. 0
	1941	7, 173	1, 162	16	83, 159. 0	10	1, 234, 562	44, 513	57, 843	1. 30	99	2. 9
Virginia	1939	916	78	9	15, 362. 2	3	189, 239	7, 363	3, 811	. 52	95	4. 5
	1940	1, 164	125	11	19, 979. 9	4	243, 664	9, 508	4, 868	. 51	99	6. 9
	1941	2, 481	467	19	42, 581. 4	8	519, 461	20, 536	20, 440	1. 00	94	8. 8
West Virginia	1939	1	0	0	37. 0	0+	402	18	0	0	81	7. 6
	1940											
	1941	88	15	17	1, 415. 6	1	16, 846	892	897	1. 01	83	19. 2

[1] Experience for the 1942 program not included as data are preliminary and incomplete.
[2] U. S. Department of Agriculture Crop Estimate annual yields divided by weighted average of 1942 county check yields. This figure rather than the actual yield has been placed in the table to show the relative size of the crop.
[3] U. S. Department of Agriculture Crop Estimate data.
[4] Richmond office discontinued and business transferred to Chicago office, May 1942.

The insured interests in the 1942 wheat and cotton crops are scattered throughout 2,500 counties in 42 States. For 6 of the southeastern States this was the first experience in insuring growing crops. These States are Louisiana, Mississippi, Alabama, Georgia, South Carolina, and Florida.

COTTON CROP INSURANCE IN 1942

WHEAT INSURANCE PATTERN FOLLOWED

Operation of the 1942 cotton insurance program has followed the general pattern established for the wheat insurance program insofar as the character of the two commodities permits. Both wheat and cotton are insured on a yield rather than an income basis. Both crops are insured against unavoidable hazards. Neither crop is insured against damage to quality or against carelessness of the producer. Coverage is for either 50 percent or 75 percent of a farm's average yield. Any wheat or cotton grower must insure all or none of the different crop interests he may have in a given county. The cost of insurance on either crop is based on the risk of growing it. Growers pledge payment of premiums by signing a non-interest-bearing commodity note which can be paid either in the commodity or the cash equivalent thereof. Nearly all premiums are, however, paid by deduction from any indemnity payment due the insured, from any commodity loan, or any payment due under the agricultural conservation program. Application for insurance on either crop must be made before planting or established closing dates, whichever is earlier. Losses are paid with a certificate of indemnity, which certificate the Corporation will convert into cash upon request, or the grower may use his certificate of indemnity to obtain a loan from the Commodity Credit Corporation for the amount of the commodity represented by the certificate. Both the wheat and cotton insurance programs are administered among farmers by county and community committeemen of the Agricultural Adjustment Agency.

Because of the inherent differences in the character of the two crops some variations were necessary in operating procedures. The fact that cotton is a cultivated crop, and subject to more human hazards than wheat, makes the adjustment of losses a more delicate problem for county committees. Moreover, insect hazards are greater in cotton than they normally are in wheat. Since insect damage is reasonably susceptible to human control, the cotton-loss-adjustment problem becomes somewhat more complex. No insurmountable difficulties are foreseen, however, and it is believed that all adjustment problems can be handled satisfactorily by county committees and the adjusters selected by them. To assure uniformity of practice between counties, it is an established procedure for a representative of the State office to assist in adjusting the first losses reported in each county.

COTTONSEED LOSSES INSURED

In order to offer cotton growers protection comparable to that offered to wheat growers it was necessary to provide insurance against average losses of cottonseed as well as of lint. Farm data were not available for developing an actuarial basis for cottonseed insurance, so it was necessary to offer protection against seed losses in terms of lint. This was done under the 1942 program by increasing lint pre-

miums and indemnities by 19 percent, which represented the average relation between lint and seed returns for the period that was used to establish the actuarial basis for cotton crop insurance.

RATES DIFFER FOR FRACTIONAL PARTS OF FARM

Actuarial studies on wheat and actual experience in the wheat insurance program show that the probability of paying losses is greater on small acreages than on large acreages for the obvious reason that a better-than-average yield on one part of a farm frequently offsets any loss that may occur on another. Since, in the cotton-growing business, it is characteristic for many tracts to be operated separately within a farm, it seemed logical in the 1942 cotton program to require that the aggregate of premium rates for fractional parts of a farm should usually be higher than the average rate for an entire farm.

CASH EQUIVALENT ON AREA BASIS

The cash-equivalent price for cotton is determined on an area basis rather than on a county basis as is the case in the wheat program. This is feasible for cotton because, as compared to wheat, the freight and handling charges for this commodity represent a small percentage of its value. For economy it is expected that for the 1942 program not more than four designated spot markets will be used in establishing cotton cash equivalents; namely, Augusta, Ga.; Memphis, Tenn.; New Orleans, La.; and New Bedford, Mass.

LIMITATION ON TRANSFER OF INTEREST

When an insured wheat or cotton crop is transferred from one person to another after the crop is planted, the new owner automatically becomes the holder of the insurance contract. With respect to wheat, such a transfer might take place up until the time of loss or threshing but for cotton no transfer of the insurance will be recognized after the time of loss or after picking of the crop has commenced. This limitation on the right to transfer cotton insurance was considered necessary because of the difficulty which might result in collecting notes where, for example, the crop is picked once, transferred, picked again, and then salvaged on a share basis.

INSURANCE PERIOD

The insurance period under the 1942 cotton insurance program extends from the time of planting until the crop is weighed in at the gin or is otherwise disposed of, but not later than January 21, 1943; for the 1942 wheat program the insurance period ran from the time the crop was seeded until threshing, or where field-sacked, 5 days after threshing, but in no event later than October 31, 1942. Prior to 1942 the wheat insurance period terminated on September 30 of the current crop year.

The insurance contract stipulates, however, that the period of insurance may be extended by the Corporation if conditions warrant such action. Continuous rains during the 1941 spring wheat harvest made it necessary to extend the insurance period to November 30, 1941, in Minnesota, North Dakota, Montana, Washington, Oregon, Idaho, and Utah. This permitted completion of harvest and made more accurate adjustment of losses possible.

COTTON INSURANCE ADMINISTRATION

Immediately upon extension of crop insurance to cotton on June 21 1941, the Corporation made plans to give practical application to the results of cotton-insurance research which it had carried on for several years in collaboration with the Bureau of Agricultural Economics. Two branch offices were set up, one at Dallas, Tex., to service Illinois and all cotton States west of the Mississippi River, and one at Birmingham, Ala., for all cotton States east of the Mississippi, except Illinois. Managers to head these offices were appointed immediately, and they began the task of selecting personnel and facilities necessary to approving cotton insurance yields and rates, auditing premium payments, approving claims, and disbursing indemnity payments.

Employees assigned to the cotton branch offices went through a period of intensive training prior to starting work on the new cotton program. This training consisted of formal classroom type of instruction in the historical background of crop insurance, explanation of procedures as they have applied to wheat insurance and were intended to apply to cotton, and a study of the ways in which the crop insurance program fitted in as a part of the national farm program. Following this training these prospective cotton branch office employees were divided into groups and sent to various wheat branch offices for practical experience in the type of work they would later be expected to do.

The personnel of the four Agricultural Adjustment Agency regions in which cotton is grown assumed a large part of the responsibility for administering the cotton insurance program in the field, this arrangement being similar in every way to that used in handling insurance on wheat. The crop insurance program was carried out through the established regional, State, county, and community AAA officials in order to make it an integral part of the general farm program.

State crop insurance supervisors were selected in the main cotton-producing States to devote all or most of their time to the cotton insurance program. These supervisors were appointed by the regional directors of the AAA with the approval of the Manager of the Federal Crop Insurance Corporation. In certain States where cotton was of minor importance a member of the State committee, or in States where the wheat program was in operation, the regular wheat insurance supervisor, usually assumed the duties of a State cotton insurance supervisor.

PRESENTING THE PROGRAM TO FARMERS

The cotton crop insurance program was officially launched on January 5, 1942, at a national meeting at Memphis, Tenn. Following this meeting a series of State meetings were held to acquaint State AAA workers and others interested in the details of crop insurance as it applied to their respective areas. District, county, and community educational meetings were scheduled in due course to familiarize local farmers with the purposes and advantages of all-risk crop insurance.

Putting the crop insurance program into effect on farms involves four distinct phases of work: (1) Establishing yields and rates for all farms; (2) writing the insurance; (3) measuring seeded acreage on insured farms; and (4) adjusting and settling losses.

As soon as the lint cotton insurance per acre and the premium rate

per acre were approved for farms in any given county, such data were sent by the county committee to all persons who had an interest in the 1942 cotton crop as owner or operator. In all, approximately 1,570,000 such statements, representing as many cotton-allotment farms, were sent out. In several short paragraphs this statement included a brief summary of the program, how and where to apply for insurance, the final date for acceptance of applications in the particular county, and the fact that each grower had a 15-day period in which to appeal the yield or rate as established for his farm.

As a follow-up to the official announcement of the cotton program and to achieve economy and efficiency in answering the questions thousands of cotton producers were asking about the new all-risk insurance plan, a question-and-answer leaflet was prepared and distributed to the 19 cotton States in quantities requested. One poster and several other pieces of educational material designed for direct-mail use were made available to meet the demand for information about the program.

Although a farm-to-farm canvass by crop insurance field workers has proved to be the most effective way to present the program to farmers, other presentation media are being used more heavily for the duration because of the shortages of rubber, fuel, and farm help.

ESTABLISHING 1942 COTTON YIELDS AND RATES

Actuarial studies based on 70,000 sample farms in more than 900 cotton-growing counties were well under way before insurance on cotton was authorized. The length of the base period, however, remained to be determined. Also there remained the development of procedure for establishing average yields and premium rates for about 1½ million farms which were eligible for cotton insurance. Average yields and premium rates for all farms had to be established before the sign-up period could begin. These data had to be computed from records on file in the county offices or appraised. Coupled with work connected with the war effort, this was such a gigantic task for county offices to handle that by the time computations were completed and notices sent to growers, only a week or two remained in some areas in which to sell insurance.

Reliable yield data, available for less than half of all cotton farms for as many as 5 of the 7 years, 1934–40, were used in computing individual farm yields and premium rates. As in the early part of the wheat program, on those farms for which adequate and reliable data were not available, yields and rates had to be appraised. Such appraisals were based on the yield and loss history for similar farms. After thus establishing average yields and rates for all farms within a county, an adjustment factor was applied to raise or lower, if necessary, all individual farm data so that the weighted average of the figures finally established would meet county control figures established by the Corporation and known as county check yields and county check premium rates. While the computations for individual farms were limited to the 7-year period, 1934–40, the county check yields which determined the level of the final-yield figures were in many instances based on the average yield for another period considered to be more representative.

1943 COTTON YIELDS AND RATES

The same basic method of setting up yields and rates for the 1942 cotton program will be used again in 1943. The data will be simpler to develop, however, and should more accurately reflect the long-time farm record because an additional year of crop history will be blended into the 1942 figures. Average yields and rates for farms, as established for the 1942 program, will be used, after necessary revisions, as the principal basis for determining yields and premium rates for 1943. Since actual 1941 yield data are available for virtually all cotton farms, these data will be incorporated into the new farm yields and rates.

WHEAT CROP INSURANCE IN 1942

At the beginning of the fiscal year 1942 the Corporation had begun settling losses on the third and was ready to write new insurance contracts on the fourth successive wheat crop. Each year's experience has shown where improvements should be made. The year-to-year changes that have accordingly been effected have stood on their respective merits in contributing toward simpler administration, greater economy, a better actuarial structure, and in general, toward more complete fulfillment of the objective of alleviating the effects of disastrous crop failure.

THE COMMODITY-NOTE PLAN

The use for the first time of a non-interest-bearing commodity note for premium payments was the most important change made in the 1942 insurance program. Authority to accept notes in payment of premiums was given concurrent with the act approved June 21, 1941, which extended crop insurance to cotton. The change will effect savings of well over a million dollars through a decrease in storage and handling costs of wheat and cotton reserves. These commodity notes rather than the actual commodity make up the reserve during the growing season. After maturity of the note, which is about harvest time, the actual commodity is purchased in an amount equal to commitments under outstanding certificates of indemnity plus estimated certificates of indemnity remaining to be issued.

Maturity dates on these notes, the earliest of which are July 10 and the latest August 29, 1942, approximate the time of harvest. It is too early to report, therefore, on note collections. The insurance contract of which the note is a part, stipulates that if payment is not made at maturity, the amount of the premium will be deducted from (1) any indemnity payable to the insured, (2) any Government payment due the farmer for cooperating in the national farm program, or (3) the proceeds of any commodity loan the farmer may obtain under any loan program administered by the Secretary of Agriculture.

The commodity-note plan enables the insured grower to pay for his insurance out of the harvest of the insured crop and at a cash price per bushel commensurate with the sale value of the crop. Accordingly, whether the cash price is high or low, the cash required for the premium takes the returns from the same number of bushels.

AVOIDING FARM-TO-FARM SELECTION OF RISKS

Since participation in the program is on a voluntary basis, the tendency of a preponderance of growers to insure only when and where losses are most apt to occur has been one of the Corporation's most

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difficult problems. Earlier closing dates for acceptance of applications, and the 3-year term contract (explained more fully on page 115), in effect for the first time for the 1943 wheat program, should help eliminate the in-and-out from year-to-year selectivity. Prior to 1942, however, wheat growers could and in many cases did insure only those acreages within a county on which they believed losses were most apt to occur. This resulted in abnormal losses in relation to premiums collected. So, to make the insurance relationship more equitable, 1942 wheat and cotton contracts require that growers insure their share in all the wheat or cotton acreage in any given county in which they have an interest so that premiums paid where current risk is low will help balance losses on those units where current risk is high.

ADJUSTMENT FACTOR APPLIED TO 1942 YIELDS AND RATES

A rather fundamental improvement was made in the 1942 wheat program yield and rate formula through the development of an adjustment factor whereby the cost of insurance was brought more closely in line with the potential risk. Under the 1940 and 1941 programs the rate for the farm was modified by the loss for the farm without regard to the change in coverage resulting in the change in average yield. If there was no loss, the rate dropped. If there was a loss, the rate increased. If the crop yield was high, the average yield for the farm increased while the rate decreased. If the crop yield was low, the the average yield for the farm was decreased while the rate increased.

For the 1942 program the rate formula was changed so that it was affected not only by current losses but also by the change in potential losses due to the change in the coverage per acre resulting from a difference in the average yield. Thus the decrease in rate due to the fact that no loss had occurred might be offset in part or even counterbalanced by the increase in coverage due to a higher average yield. Correspondingly, an increase in rate due to a loss would be in part offset by the decrease in potential risk from reduced coverage for the subsequent year.

OTHER 1942 PROGRAM REFINEMENTS

Other noteworthy refinements in the 1942 program are as follows:

(1) Prior to the 1942 program an insured grower who transferred his interest in a wheat crop to another person was required to execute a formal transfer of the insurance contract to the new owner. Failure to do so in the prescribed time and manner created some confusion in collecting the premium or settling any loss. Under the 1942 wheat and cotton insurance contracts the insurance automatically transfers with any transfer of interest in the crop. Under such a transfer the premium is usually collected from the transferee, but in the event of his failure to pay the premium, collection may be made from the transferor. This lessens administrative detail and simplifies the problem as to whom any indemnity should be paid because the Corporation simply makes payment to whoever owns the crop at the time of loss.

(2) All indemnities under the 1942 program are settled by issuance of a certificate of indemnity rather than by offering the grower several options, as in the past. In some instances the selective-option settlement previously used resulted in misunderstanding and dissatisfaction. With his certificate of indemnity the insured can

obtain the cash equivalent of the number of bushels of wheat or pounds of cotton representing his loss, he can use it to obtain a loan from the Commodity Credit Corporation, or he can obtain a warehouse receipt representing the commodity if it is available.

(3) In general, operating procedures have been simplified all along the line to cut to a minimum the administrative and clerical duties in county, State, and branch offices. The number of forms required has been reduced by standardization so that the same forms may be used for both wheat and cotton and from year-to-year. Obviously the chances of obsolescence, particularly of material that must be used in approximately 2,500 counties, have been lessened.

As a result of the adoption of these simplified methods of accomplishing required results, coupled with the extreme necessity of reducing administrative costs during the war, plans were taking shape at the close of the 1942 fiscal year to reduce the number of wheat branch offices from four to two. The reduction will be made by closing the Spokane, Minneapolis, and Kansas City branch offices and opening a new one at Denver, Colo., to serve all States from North Dakota to Texas and west. The existing Chicago office will serve all wheat-producing States from Minnesota to Arkansas and east. The work of the Richmond, Va., branch office was shifted to Chicago in May 1942. An estimated annual saving of at least $165,000 will result from this branch-office reorganization.

Reduction in personnel will account for most of the saving that will be effected. Including the personnel hired during the fiscal year 1942 to operate the new cotton insurance program, the total number of employees on the pay roll as of June 30, 1942, was 562 compared with 559 as of June 30, 1941. Both the wheat and cotton insurance programs are thus being administered with only 3 more employees than were required to run the wheat program alone. Despite this small change in total personnel, the turnover during the year was extremely heavy. Replacements had to be effected for 31 men who enlisted or were drafted for the armed forces, 91 who transferred to other Government agencies, mostly war agencies, and 162 employees who left the Corporation to enter private business or for other reasons.

SUMMARY OF LOSS EXPERIENCE

As should normally be expected, the Corporation has relied very heavily on its loss experience to indicate basic improvements needed in the insurance structure. Careful analysis of losses above expectancy usually discloses their cause and suggests the remedy, whether it be administrative correction or safeguards against abnormal crop conditions. Gratifying progress, we feel, has been made along these lines each year and while there has not been and perhaps will never be any need for material departure from the original crop insurance plan, refinements ought to be made as experience proves the need for them.

1939 CROP YEAR [1]

Indemnities paid in 1939 exceeded premium collections by a little more than 50 percent although premiums exceeded indemnities in 12 of the 31 States in which insurance was written that year. The

[1] See table 2 for complete statistical summary for the 1939-41 crop insurance programs.

greatest single factor contributing to 1939 losses was drought in the hard winter wheat area. Losses from this cause were increased by adverse selection of risks resulting from the fact that it was necessary to permit wheat growers to complete their contract by paying premiums after the crop was planted. Under the circumstances this was something that could not be prevented because the tremendous job of determining individual farm yields and rates made it impossible to tell the insurance prospect how much he owed until after seeding and in some instances after the prospects of a crop were reasonably determinable. If prospects were favorable, growers declined to pay the premium; if prospects were poor, they paid the premium.

1940 CROP YEAR

To help prevent a recurrence of the adverse 1939 experience, the 1940 contract required premiums to be paid, or their payment authorized from agricultural conservation program advances, before any wheat was seeded on the farm. Also, check yields and premium rates were established for all counties which, in a great majority of cases, resulted in an increased rate.

As much as 2 months before it was time to seed the 1940 winter wheat crop, the worst drought in 50 years, if not the worst on record, scorched the southern Great Plains. Farmers in the area knew that the Federal crop insurance program was designed to alleviate the effects of crop failure and they also knew that crop failure was fairly imminent when such drought conditions existed prior to or at seeding time. A heavy sign-up naturally resulted. Insurance did not attach unless wheat was seeded which meant that many farmers seeded under adverse conditions, a practice that was common among both uninsured and insured wheat growers. Drought losses caused indemnity payments that year to exceed premiums by 66 percent although 20 of the 33 States in which the Corporation did business in 1940 added more to the reserve than they took out. Table 3 gives a more complete picture of the causes of loss to the 1940 wheat crop. Similar data on the 1941 and succeeding crop years will be prepared as soon as time permits an abstract of pertaining reports to be made.

TABLE 3.—*Indemnified losses caused by various hazards on insured 1940 wheat crops*

Branch office and State	Drought	Winter-kill	Excessive moisture	Hail	Rust	Flood	Hot winds	Blow-out	Frost
Chicago:	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Illinois	45	11	4	-------	10	6	-------	-------	-------
Indiana	16	13	7	-------	34	16	-------	-------	-------
Iowa	28	-------	-------	-------	12	6	-------	-------	-------
Kentucky	47	12	7	-------	-------	31	-------	-------	-------
Michigan	15	30	29	4	10	6	-------	-------	-------
Ohio	22	22	24	-------	-------	10	-------	-------	-------
Tennessee	8	71	6	-------	-------	-------	-------	-------	-------
Kansas City:									
Colorado	66	4	-------	12	-------	-------	-------	7	-------
Kansas	80	3	-------	-------	2	-------	-------	7	-------
Missouri	42	10	-------	-------	20	-------	-------	-------	-------
Nebraska	90	-------	-------	4	-------	-------	-------	-------	-------
New Mexico	40	-------	-------	3	-------	-------	-------	29	-------
Oklahoma	62	12	-------	-------	6	-------	-------	10	-------
Texas	71	-------	-------	3	-------	-------	-------	18	-------

TABLE 3.—*Indemnified losses caused by various hazards on insured 1940 wheat crops*—Continued

Branch office and State	Drought	Winter-kill	Excessive moisture	Hail	Rust	Flood	Hot winds	Blow-out	Frost
Minneapolis:	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Minnesota	55	3	3	18					5
Montana	44			29					
North Dakota	79			9					4
South Dakota	80			12					
Wisconsin	5	17	5	18	45				
Wyoming	68			13			8		6
Spokane:									
California			19		54	20			
Idaho	47		9	8	4		14		
Nevada	8			7	75				
Oregon	64		6	3			10		
Utah	84		4						
Washington	67			9			4		
Richmond, Va.:[1]									
Delaware	14		39	9	16				
Maryland	3	22	10						
New Jersey		15	61						
New York	7	46	19			22			
North Carolina	47	16			9				22
Pennsylvania	7	57	9			3			
Virginia		15	25	27		10			8
United States	75.5	2.3	.9	3.9	3.0	.7	.3	4.6	.5

Branch office and State	Grass-hoppers	Chinch bugs	Hessian fly	Cut worm	Smut	Scab	Miscel-laneous	Total loss
Chicago:	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Bushels*
Illinois		12	3				9	36,047
Indiana						9	5	123,915
Iowa		50					4	47,580
Kentucky							3	9,691
Michigan							6	57,965
Ohio						13	9	77,453
Tennessee							15	1,383
Kansas City:								
Colorado							11	465,490
Kansas							8	8,298,987
Missouri		22					6	140,693
Nebraska							6	5,130,595
New Mexico				22			6	21,487
Oklahoma							10	1,277,841
Texas							8	1,649,525
Minneapolis:								
Minnesota	6						10	128,054
Montana	20						7	367,278
North Dakota	4						4	2,039,857
South Dakota	4						4	1,618,221
Wisconsin							10	3,109
Wyoming							5	271,458
Spokane:								
California							7	624,875
Idaho							18	99,899
Nevada	3						7	5,469
Oregon	17							146,798
Utah							12	15,201
Washington							20	186,261
Richmond, Va.:[1]								
Delaware						12	10	6,269
Maryland			8			43	14	9,977
New Jersey					24			264
New York							6	2,153
North Carolina					6			362
Pennsylvania			13				11	30,725
Virginia						9	6	4,868
United States	1.1	.3	([2])	([2])	([2])	.1	7.1	22,899,750

[1] Discontinued and business transferred to the Chicago office May 1942.
[2] Less than 0.1 percent.

1941 CROP YEAR

Uniform closing dates for acceptance of applications in county offices were set for the 1941 program in an effort to reduce losses from adverse-risk selectivity. The final dates, August 31 for winter wheat and February 28 for spring wheat, were from 2 weeks to a month earlier than closing dates under the 1940 program. Also, new yields and rates were computed for 1941, bringing into the actuarial base the actual production data of 1939 which tended to increase premium rates, particularly where high losses had occurred.

By the time applications were being written on the 1941 winter wheat crop, the drought area had shifted from the high-risk southern Great Plains area to the relatively low-risk area just north and east of it. The result was that participation increased substantially where soil moisture and premiums were low, and decreased materially where premiums and seasonal precipitation were high. Although drought conditions disappeared in the fall of 1941, millions of acres of wheat started the winter in a weakened condition—too weak to withstand the worst November freeze that ever hit that part of the country. Thus, extremely abnormal winter-kill damage in some of the winter wheat area, coupled with local but severe wind and drought damage in Oklahoma and Texas, flood and rust losses in California, and excessive rainfall at harvest time in several important wheat areas, caused 1941 indemnity payments to exceed premium collections by nearly 40 percent. Nevertheless, premium collections exceeded indemnity payments in 18 of the 35 States in which insurance was written that year.

1942 CROP YEAR

Two important features added to the 1942 program were (1) the requirement that growers insure all crop interests within a given county to avoid adverse farm-to-farm selection of risks (see page 109), and (2) the use of an adjustment factor in the yield and rate formula which brought premium rates more closely in line with the potential risk (see page 110). Also, base-period data were strengthened by the addition of actual 1940 production figures.

With the 1942 harvest now well under way it appears that the year's premium collections will show a favorable balance against indemnities. As of early August the Corporation had settled 1942 losses totaling 2,977,000 bushels as compared with 7,351,000 bushels for the same date under the 1941 program. If losses from early August until the completion of harvest are similar to those which occurred in 1941, the Corporation estimates total 1942 indemnities at about 8½ million bushels.

Although there has been no widespread destruction by any one hazard this year, some heavy losses have been caused by too much rain and flooding in Missouri, Illinois, south-central Indiana, eastern Kansas, eastern Oklahoma, and California. Some counties in southwest Oklahoma and a larger area in north-central Texas have suffered heavy loss from green bugs. Hail has caused above-average losses in scattered localities of the western half of the United States. Losses from drought and winter-kill have been below normal so far.

WHEAT INSURANCE FOR 1943

THREE-YEAR TERM CONTRACT

Soil-moisture conditions at the time of seeding are an important factor in the major wheat areas in indicating the prospects of a crop. This information, available to the farmers well in advance of the seeding date and usually before the closing date for submitting applications, has quite naturally been used in deciding whether or not to buy all-risk insurance. As long as insurance was offered on a 1-year basis, a higher percentage of growers could be expected to insure where crop prospects were unfavorable than where conditions looked good.

The first 3 years of insurance experience proved quite conclusively that a preventive for year-to-year selectivity was imperative. Several alternatives were considered; namely, (1) an automatic insurance plan whereby all growers who participated in the national farm program would be insured, (2) still earlier closing dates for acceptance of applications—possibly as far as 6 months before planting time, and (3) a term-insurance plan.

A thorough study was made of this problem, both by the Corporation and by a committee of three insurance experts independent of the Corporation. In addition, AAA committeemen from every wheat-producing State were given an opportunity to express their recommendations, which resulted in a general meeting of the minds that the most practical solution would be to write wheat-crop insurance on a long-term basis. Accordingly, a 3-year contract was offered to wheat growers about the middle of June 1942 to cover the wheat crops for harvest in 1943, 1944, and 1945. Early apprehension about possible unpopularity of term insurance among farmers has been largely dispelled. In fact, current unofficial reports give assurance that the term contract is more popular in some States than the 1-year contract ever was. Term insurance on cotton is being considered, but the need for it seems less urgent inasmuch as cotton crop prospects based on preseeding conditions are less predictable than on wheat; hence, there is less danger of year-to-year selectivity.

In developing the 3-year wheat insurance contract the Corporation was mindful of the need for flexibility to meet contingencies or circumstances that might arise during a 3-year period and made the following provisions: (1) The contract is subject to all amendments that may be made from year to year and any legislation Congress may enact pertaining to the Crop Insurance Act, including appropriation statutes; (2) the insured may cancel the third year of insurance by giving his county committee written notice on or before the closing date for accepting applications for the second crop year under the contract; (3) the yield and rate as established for each production unit insured for the first year shall remain constant for the term of the contract; (4) the insured may, at the beginning of any crop year, enter into a new 3-year contract if changes in the program make it desirable for him to do so; (5) any wheat-crop interests acquired by an insured grower after the first year of the 3-year term will be insured on the yield and rate basis that would have applied had he insured it under his original contract, provided he acquires such interests before the wheat is planted.

Premiums are paid under the 3-year contract with a non-interest-

bearing commodity note. It provides for three annual installment payments, each installment coming due at a date which approximates harvest time in the various States and representing the total premium for the number of acres seeded during the current year. Any payments made on the note at or before maturity may be made with a warehouse receipt representing salable wheat, or in the cash equivalent. Any payments made after maturity must be made in cash equivalent only.

The cash equivalent of any premium installment is determined by multiplying the number of bushels of wheat of the specified class and grade by the cash equivalent price per bushel for the day the installment is due, or if paid before the due date, the price for the day the installment is actually paid.

REDUCED-PREMIUM PLAN

It is a common practice among commercial insurance companies to pay dividends, allow refunds, or reduce premiums for subsequent years if the insured suffers no loss under his policy or contract. A plan has been developed for applying this principle to the 1943 and succeeding insured wheat crops. Moreover, it will give recognition to growers who can demonstrate their ability to produce without losses, and this in turn should encourage continuous participation on farms where few losses have been paid.

In general, the reduced-premium plan provides that if, after a period of *consecutively* insured wheat crops, the aggregate of premiums paid by the insured, less indemnities collected by him during the same period, equals or exceeds the insured production for 1943 or any subsequent year, the annual premium may be reduced by 50 percent. Because of the importance of personal ability in producing crops, and in fairness to tenants and owners who shift their operations from farm to farm, eligibility for reduction in premium will be determined on a personal-experience basis, rather than on a farm basis.

Table 4 shows how the plan will operate in its simplest form on a hypothetical farm. Here, farm X has been insured for 4 consecutive years. A 45-bushel loss occurred in 1940, which makes the accumulated balance of premiums over indemnities at the end of the 4 years amount to 525 bushels. Assuming that the insured production for 1943 is 500 bushels or some figure less than the accumulated balance, the premium for farm X will be reduced by 50 percent.

TABLE 4.—*Operation of the reduced premium plan on farm X*

Crop year	Insured production	Premium	Indemnity	Accumulated balance
	Bushels	*Bushels*	*Bushels*	*Bushels*
1939	490	135	0	135
1940	510	145	45	235
1941	500	140	0	375
1942	520	150	0	525
1943	500	75	----------	----------

Various factors, such as increased or decreased acreages, changes in farming practices, degree of interest in crops, etc., will be considered where such factors apply. Methods for modifying the plan to fit such

cases have been developed. To avoid placing a farmer who has carried insurance continuously at a disadvantage compared with the farmer who may apply for the first time, it has been provided that the accumulated balance shall never drop below zero.

PREMIUM-RATE SCHEDULES

Constant search for a better way to establish premium rates for all farms in each county has resulted in a plan whereby, in a great majority of counties, one schedule of rates can be used rather than a rate on each individual farm.

In operation this county-wide rate plan requires the classifying of all farms within a county into yield groups based on data from the previous years' listing sheet. For example, all farms with a yield from 8.0 to 8.9 bushels are placed in one group; from 9.0 to 9.9 bushels in the next group, etc. The premium-rate schedule is then developed by the process of finding the simple average of premium rates for each yield group in the county, which in an average county means that all farms in each yield group will have the same premium rate.

Provision is also made for upward adjustment of rates for particularly high-risk farms to prevent "bargain" insurance. In some counties, however, where farms fall into two or more distinctly different risk groups, but which have yields that would fall into the same yield group on the premium-rate schedule, it has been necessary to provide more than one schedule of rates—one for each risk group.

The plan described was used in establishing rates for the 1943 wheat program. Its objective was to prevent accidental crop losses from causing differences in rates between farms of similar yields. It is more economical and simpler than the original plan and is better understood by growers who want to know how their insurance cost was established.

VARIED CLOSING DATES

With term insurance a reality, the Corporation felt it would be mutually advantageous to depart from the rule of uniform closing dates for acceptance of applications in county offices. Rather than have all winter wheat or spring wheat States complete their sign-up at a uniform early date, the term contract provides closing dates that are in step with the season, which permits more time to present the program in some States without changing the possibilities of adverse selection of risks. Regardless of closing dates, however, insurance will not be written on any crop after it is planted.

The final date set for accepting winter wheat applications for the 1943 program was August 31, 1942, the same as last year, for Arizona, Arkansas, Colorado, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Wisconsin, and Wyoming; September 15 for Delaware, Kentucky, Maryland, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, and West Virginia; September 30 for California, Idaho, Nevada, Utah, and Washington. The closing date set for all spring wheat insurance applications was March 15, 1943, instead of February 28 as was the case last year.

COUNTY SURVEY OF CROP INSURANCE

Recognizing the desirability of getting the farmers' point of view about every phase of the crop insurance program and to get first-hand information and suggestions for later analysis as to how the program may be improved, the Corporation conducted a farm survey during the summer of 1941, involving interviews with more than 1,000 farmers and other individuals in 15 counties in 14 of the most important wheat-producing States. The survey was made by men from the Washington office with the approval of, but not in collaboration with, State and county committeemen.

In selecting the counties to be surveyed care was taken to use those that had wide variations in participation, indemnities paid, relation of rates to yields, and the importance of wheat as a source of income. About a month was required to complete the survey in each county and it was purposely timed to take place at the peak of crop insurance administrative activities; in other words, at harvest time when losses were being adjusted and plans for presenting the succeeding years' program were being developed.

The consensus of the reports from all 15 counties has helped to bring about constructive changes in the 1943 program. Aside from many incidental benefits that might be expected to come from interviews with more than 1,000 farmers, these studies are part of the basis of an unbiased study now being made by a committee of 3 professional insurance analysts independent of the Corporation, a comprehensive report on which is in the process of preparation.

SUMMARY OF DATA OBTAINED

Although this county survey disclosed much information that may or may not have a direct bearing on crop insurance, some observations were made that seem worthy of discussion here.

SOUNDNESS OF BASE-PERIOD DATA

Some apprehension prevailed generally among farmers about the soundness of data used to establish base-period yields and rates. Different reasons for this were advanced in different localities as follows: (1) Records available for only the better-than-average farms; (2) some farmers reported only wheat actually sold and did not report harvested wheat used for other purposes on the farm; (3) yields of 5 bushels or less not reported because they were used for hay; (4) understatement of yield history by farmers who thought high yields would increase taxes, and overstatement by those who thought high yields would increase Agricultural conservation program payments; (5) records carelesssly obtained; and (6) inadequate adjustment for losses of a local nature.

While these allegations may have some basis in fact, the adverse effect, if any, they have had on the crop insurance program is being lessened from year to year by stricter administration and by blending into the base-period data the current production data which are collected specifically for actuarial purposes.

REPEAT BUSINESS

The number of farmers who have taken insurance every year since the program began was found to be relatively small, although a considerable number were in one year, missed a year, and then came back in again. On the average it is estimated that about 40 percent of each year's business so far represents farmers who took insurance the previous year, although private studies on the subject in other counties showed this percentage to be much higher.

No clear-cut reason for failure to insure continuously could be detected but the following observations are perhaps indicative: (1) Growers are less inclined to insure following a bumper harvest; (2) many growers believe the premium rate too high or the ratio of coverage too small; (3) others say that payments under the Agricultural conservation program are sufficient insurance; (4) in some counties emphasis was placed on obtaining new business and very little effort was made to get repeat business, and (5) some dropping out after 1 year should be attributed to the fact that a few growers who expected but didn't make a "profit" out of their initial insurance investment failed to realize that the program is designed only to "protect" the insured grower against losses below a substantial part of an average yield.

FACTORS INFLUENCING PARTICIPATION

Undoubtedly the most important factor affecting participation in the 15 counties studied is the attitude of county and community committeemen toward the crop insurance phase of the farm program. In counties where the men administering the Federal Crop Insurance Program were enthusiastic about it and had made an organized effort to explain the program to farmers, high participation was obtained even though yield and premium rates or other factors were relatively unfavorable for selling insurance. In other counties where the attitude regarding administration of the program was indifferent, very little insurance was written despite seeming favorable conditions otherwise. In still other counties, committeemen apparently made a selective effort to sell insurance; that is, they made a special effort to write insurance on high-risk farms. While perhaps in line with the purpose of the program to alleviate the effects of crop failure, this practice was definitely out of line with sound insurance practice. It has been corrected, we believe, by the term contract and by the requirement that all farms a producer may have within a county be insured rather than only those he may select.

FINANCIAL AND COMMODITY REPORT

Owing to the particular requirements of a yield-insurance program in which insured yields, premiums, and indemnities are computed in terms of the commodity, the insurance reserve, representing premiums less indemnities, and other integrated accounts are expressed in terms of the commodity—bushels for wheat, and pounds for cotton. The insurance reserve thus reflects the actuarial experience; i. e., the relation between premiums and indemnities in terms of the commodity.

For the purpose of making cash settlements, premiums and indemnities are translated into current market prices at the farm. The insured may pay premiums or receive indemnities in the commodity through the medium of warehouse receipts, but the number of this type of transaction is negligible. The monetary values arising from cash transactions are handled in accordance with usual accounting practice. The financial results, consisting of the cash-equivalent values of premiums and indemnities, comprise the operating reserve.

The insurance reserve (commodity) and operating reserve (monetary) are maintained to reflect the results of each crop year separately.

The financial and commodity positions of the Corporation as of June 30, 1942, are reflected in tables 5 to 9.

TABLE 5.—*Comparative balance sheet (monetary) for the fiscal years ending June 30, 1941, and June 30, 1942, as of June 30, 1942*

ASSETS

Item	Fiscal year ending—		Increase or decrease as of 1942
	June 30, 1941	June 30, 1942	
Cash	$7,972,129.74	$3,906,484.59	−$4,065,645.15
Accounts receivable:			
Uncompleted sales of wheat	11,115.24		−11,115.24
Administrative fund		255,005.10	+255,005.10
Other	5,933.09	24,803.75	+18,870.66
Total accounts receivable	17,048.33	279,808.85	+262,760.52
Notes receivable—premium collections for 1942 crop year (estimated)		14,699,892.28	+14,699,892.28
Interagency assets: Agricultural Adjustment Administration	11,088.09		−11,088.09
Other assets:			
Wheat inventory (stated at cost value)—			
In store	9,882,177.57	9,698,253.94	−183,923.63
Purchase commitments	68,612.50		−68,612.50
Total	9,950,790.07	9,698,253.94	−252,536.13
Less sales commitments	11,115.24		−11,115.24
Net inventory	9,939,674.83	9,698,253.94	−241,420.89
Total assets	17,939,940.99	28,584,439.66	+10,644,498.67

LIABILITIES AND CAPITAL STOCK

Item	June 30, 1941	June 30, 1942	Increase or decrease as of 1942
Accounts payable:			
Uncompleted purchases of wheat	$308,075.46		−$308,075.46
Administrative fund	69,853.21		−69,853.21
Other	170.08	$225.44	+55.36
Total	378,098.75	225.44	−377,873.31
Indemnities payable (estimated)		8,446,000.00	+8,446,000.00
Operating reserve	3,561,842.24	138,214.22	−3,423,628.02
Total liabilities	3,939,940.99	8,584,439.66	+4,644,498.67
Capital stock	14,000,000.00	20,000,000.00	+6,000,000.00
Total liabilities and capital stock	17,939,940.99	28,584,439.66	+10,644,498.67

TABLE 6.—*Comparative balance sheet (wheat) for the fiscal years ending June 30, 1941, and June 30, 1942, as of June 30, 1942*

ASSETS

Item	Fiscal year ending— June 30, 1941	Fiscal year ending— June 30, 1942	Increase or decrease as of 1942
	Bushels	*Bushels*	*Bushels*
Wheat inventory	12, 255, 033	10, 651, 533	−1, 603, 500
Notes receivable—premium collections for 1942 crop year (estimated)		10, 167, 298	+10, 167, 298
Liabilities requiring no inventory coverage:			
Unapplied deposits		69	+69
Indemnities payable—1941, uncertified		1, 918	+1, 918
Indemnities payable—1941, deferred		11, 617	+11, 617
Total		13, 604	+13, 604
Excess of wheat-stock requirement over inventory [1]		37, 231	+37, 231
Total assets	12, 255, 033	20, 869, 666	+8, 614, 633

LIABILITIES

Item	June 30, 1941	June 30, 1942	Increase or decrease as of 1942
Deposits for future premiums	9, 376	69	−9, 307
Indemnities payable	2, 066, 888	11, 601, 383	+9, 534, 495
Insurance reserve	−1, 594, 076	−9, 514, 727	−7, 920, 651
Reserve for estimated premium decreases	−840, 000		+840, 000
Excess of indemnities over premiums:			
1939 crop year	3, 493, 360	3, 493, 583	+223
1940 crop year	9, 094, 817	9, 102, 884	+8, 067
1941 crop year		6, 186, 474	+6, 186, 474
Excess of wheat inventory over wheat-stock requirement [1]	24, 668		−24, 668
Total liabilities	12, 255, 033	20, 869, 666	+8, 614, 633

[1] Represents:

Item	Fiscal year ending— June 30, 1941	Fiscal year ending— June 30, 1942	Increase or decrease as of 1942
Premium collections	14, 264, 012	332, 702	−13, 931, 310
Deposits for future premiums	9, 376		−9, 376
Indemnities approved for deferred settlement on 1940 crop year and unpaid	1, 262		−1, 262
Indemnities payable—1941, on Commodity Credit Corporation loan		10, 559, 322	+10, 559, 322
Total	14, 274, 650	10, 892, 024	−3, 382, 626
Less:			
Indemnities paid	1, 204, 285	203, 260	−1, 001, 025
Reserved for estimated premium decreases	840, 000		−840, 000
Total	2, 044, 285	203, 260	−1, 841, 025
Wheat-stock requirement	12, 230, 365	10, 688, 764	−1, 541, 601
Wheat inventory	12, 255, 033	10, 651, 533	−1, 603, 500
Excess of wheat inventory over wheat-stock requirement	24, 668		−24, 668
Excess of wheat-stock requirement over inventory		37, 231	+37, 231

The wheat inventory is usually slightly over or under the wheat-stock requirement because of the short lapse of time between premium and indemnity transactions, and the purchase and sale of wheat.

COMMENTS ON MONETARY AND WHEAT BALANCE SHEETS (TABLES 5 AND 6)

CASH

The cash amounting to $3,906,484.59 is deposited with the Chief Disbursing Officer of the Treasury Department. The facilities of the Disbursing Office of the Treasury are used by the Corporation for deposits and disbursements.

ACCOUNTS RECEIVABLE

The amount due from the Administrative Fund (appropriation made available for operating and administrative expenses) in the amount of $255,005.10 represents wheat warehousing charges paid from the capital fund of the Corporation. This amount is reimbursable by the Administrative Fund.

Other accounts receivable amounting to $24,803.75 mainly represent indebtedness of insured farmers amounting to $21,701.25 and a claim of $3,102.50 resulting from the inability of the warehouseman to deliver wheat to the Corporation as shown by his warehouse receipts.

NOTES RECEIVABLE

Notes receivable in the amount of $14,699,892.28 represent the estimated value of commodity notes held by the Corporation for 1942 crop year insurance premiums. This item is subject to adjustment to conform with the actual cash-equivalent prices to be computed on the basis of prices in effect at maturity dates. Established maturity dates for computing the balance due on wheat premiums range from July 10 to August 29, 1942, and for cotton premiums from August 1, 1942, to October 25, 1942.

WHEAT INVENTORY

As of June 30, 1942, the wheat inventory amounted to 10,651,533 bushels stated at the cost value of $9,698,253.94.

This wheat was held as a protection against price increases in 1941 crop year outstanding certificates of indemnity, and to cover the 1942 crop year operations represented by premium collections prior to the maturity date of 1942 notes, less 1942 indemnities paid. As indicated in the footnote of table 6, the wheat-stock requirement was 37,231 bushels in excess of the Corporation's inventory, which difference was absorbed in operations subsequent to the close of the fiscal year.

It will also be noted in the footnote of table 6 that the Commodity Credit Corporation is the holder of 1941 outstanding certificates of indemnity, representing 10,559,322 bushels of wheat. These certificates were pledged as collateral for loans with the Commodity Credit Corporation by growers and were unredeemed as of April 30, 1942, the final date set by that Corporation for the redemption of loans.

The liquidation of these outstanding certificates is now in process and will be effected by an exchange of the certificates for warehouse receipts in an equivalent number of bushels. A cash adjustment in favor of the Federal Crop Insurance Corporation will result because of the excess of value of the wheat stocks held at terminal markets as compared with local farm prices upon which the certificates will be evaluated. The prices in effect on May 11, 1942, the agreed settle-

ment date, will govern. An adjustment for warehousing charges will also be involved in the settlement.

No cotton stocks were acquired since only 203 bales (101,520 pounds) were paid in cotton premiums to June 30, 1942.

In order to reduce operating and administrative expenses incident to the acquisition, maintenance, and disposal of commodities, required as price protection, recent arrangements have been made with the Commodity Credit Corporation whereby its facilities shall be utilized by this Corporation to perform these functions. Briefly, the agreement provides that the Commodity Credit Corporation shall, at the direction of the Federal Crop Insurance Corporation, acquire wheat and cotton stocks for the latter Corporation's account at such locations and quantities as specified and at current market prices. Conversely, any stocks so acquired shall be disposed of as directed.

ACCOUNTS PAYABLE

Accounts payable amounting to $225.44 are miscellaneous in character due for the most part to individual growers.

INDEMNITIES PAYABLE (ESTIMATED)

Outstanding certificates of indemnity amount to 11,601,383 bushels at an estimated monetary value at the farm of $8,446,000. Actual cash values of these certificates will be determined at the time of liquidation. Included in the 11,601,383 bushels is an amount of 10,559,322 bushels, represented by 1941 crop year certificates pledged as collateral for loans by growers with the Commodity Credit Corporation. As stated in a preceding portion of this report, these certificates were unredeemed by growers and are now in process of settlement between the Commodity Credit Corporation and the Federal Crop Insurance Corporation.

The balance of the commodity liability represents, for the most part, 1942 crop-year outstanding certificates of indemnity.

OPERATING RESERVE

The operating reserve reflects the premiums less indemnities stated in monetary values. This account, amounting to $138,214.22, is summarized by crop years in table 7.

TABLE 7.—*Summary of the relation between premiums, indemnities, and the operating reserve balances for the crop years 1939–42*

Crop year	Premiums	Indemnities	Operating reserve
Wheat:			
1939	$3, 411, 019. 43	$5, 605, 931. 41	−$2, 194, 911. 98
1940	9, 155, 343. 25	13, 826, 726. 51	−4, 671, 383. 26
1941	7, 098, 186. 30	13, 940, 203. 26	−6, 842, 016. 96
1942	[1] 10, 500, 000. 00	[2] 1, 150, 025. 58	+9, 349, 974. 42
Total wheat	30, 164, 548. 98	34, 522, 886. 76	−4, 358, 337. 78
Cotton: 1942	[1] 4, 500, 000. 00	(3)	+4, 500, 000. 00
Total cotton and wheat	34, 664, 548. 98	34, 522, 886. 76	+141, 662. 22
Less other charges			−3, 448. 00
Operating reserve			+138, 214. 22

[1] Estimated.
[2] Represents the cost of indemnities paid plus the estimated value of outstanding certificates of indemnity to June 30, 1942. The major portion of 1942 indemnities will be approved from July through October 1942.
[3] No claims for cotton losses presented to the Corporation as of June 30, 1942.

INSURANCE RESERVE

The insurance reserve reflects the premiums, less indemnities, expressed in terms of the commodity. A separate reserve account is carried for each commodity insured.

The wheat insurance reserve operations are summarized by crop years in table 8.

TABLE 8.—*Summary of relation between wheat premiums, indemnities, and insurance reserves for the crop years 1939–42*

Crop year	Premiums	Indemnities	Insurance reserve
	Bushels	*Bushels*	*Bushels*
1939 [1]	6, 670, 316	10, 163, 899	−3, 493, 583
1940 [1]	13, 796, 866	22, 899, 750	−9, 102, 884
1941 [1]	12, 645, 866	18, 832, 340	−6, 186, 474
1942	[2] 10, 500, 000	[3] 1, 231, 786	+9, 268, 214
Total	43, 613, 048	53, 127, 775	−9, 514, 727

[1] For data by States see table 2.
[2] Estimated. Actual premium figures, in which will be shown the acreage seeded to wheat and the total premiums, will be available when all acreage reports have been received.
[3] Represents the total bushels paid and accrued to June 30, 1942. The major portion of 1942 indemnities will be approved from July through October 1942.

The cotton insurance program has been in operation only for the 1942 crop year.

Although acreage reports on cotton planted were not available for determining the actual premium income, it is estimated that the premiums will amount to about 25 million pounds of cotton or 50,000 bales.

CAPITAL STOCK

As of June 30, 1942, the Corporation had requisitioned 20 million dollars of the total stock subscribed by the Treasurer of the United States, amounting to 40 million dollars.

OPERATING AND ADMINISTRATIVE EXPENSES

A comparison of operating and administrative expenses and appropriations for the fiscal years ended June 30, 1941 and 1942 is shown in table 9.

The increase in operating and administrative expenses of $2,734,062.96 as compared with the 1941 fiscal year is due to the operation of the cotton insurance program which was started in the 1942 fiscal year.

TABLE 9.—*Comparative statement of operating and administrative expenses and appropriation reconciliation for the fiscal years ended June 30, 1941, and June 30, 1942, as of June 30, 1942*

Item	Expenses for the fiscal year ended—		Increase or decrease as of 1942
	June 30, 1941	June 30, 1942	
Direct expenses except wheat storage:			
Personal services	$947, 480. 07	$1, 149, 863. 62	+$202, 383. 55
Travel	54, 164. 27	100, 845. 20	+46, 680. 93
Transportation of things	11, 412. 98	30, 329. 49	+18, 916. 51
Communication service	18, 697. 06	22, 541. 93	+3, 844. 87
Rents and utility services	45, 971. 60	52, 538. 01	+6, 566. 41
Printing and binding		74, 237. 64	+74, 237. 64
Other contractual services	18, 301. 25	51, 123. 40	+32, 822. 15
Supplies and materials	38, 456. 03	108, 212. 49	+69, 756. 46
Total direct expense except wheat storage	1, 134, 483. 26	1, 589, 691. 78	+455, 208. 52
Wheat storage	933, 113. 75	716, 974. 91	−216, 138. 84
Total direct expense	2, 067, 597. 01	2, 306, 666. 69	+239, 069. 68
Expenses of cooperating agencies:			
Office of the Secretary	40, 937. 00	67, 410. 00	+26, 473. 00
Bureau of Agricultural Economics	82, 100. 00	81, 207. 00	−893. 00
Office of Information	4, 772. 00	9, 800. 00	+5, 028. 00
Office of the Solicitor	45, 922. 00	45, 922. 00	
Agricultural Marketing Administration	21, 605. 00	26, 375. 00	+4, 770. 00
Agricultural Adjustment Administration	2, 892, 640. 00	5, 314, 859. 00	+2, 422, 219. 00
Library, Department of Agriculture		840. 00	+840. 00
Division of Disbursements—Treasury Department	12, 000. 00	11, 196. 00	−804. 00
Total expenses of cooperating agencies	3, 099, 976. 00	5, 557, 609. 00	+2, 457, 633. 00
Total expenses	5, 167, 573. 01	7, 864, 275. 69	+2, 696, 702. 68
Equipment purchased	18, 070. 71	55, 430. 99	+37, 360. 28
Total expenditure	5, 185, 643. 72	7, 919, 706. 68	+2, 734, 062. 96
Unexpended balance	337, 556. 28	640, 120. 32	+302, 564. 04
Total appropriation	5, 523, 200. 00	8, 559, 827. 00	+3, 036, 627. 00

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